



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

REGION III

1650 Arch Street

Philadelphia, Pennsylvania 19103-2029

JUL 17 2018

Mr. Patrick M. Murphy
Environmental Engineering Division Director
West Virginia Department of Health and Human Resources
350 Capitol Street, Room 313
Charleston, West Virginia 25301-3713

RE: FY 2017 DWSRF Program Evaluation Report

Dear Mr. Murphy:

This Program Evaluation Report (PER) is the U.S. Environmental Protection Agency's (EPA) evaluation on the West Virginia Department of Health and Human Resources (DHHR), Bureau for Public Health (BPH), Drinking Water Treatment Revolving Fund or Drinking Water State Revolving Fund (DWTRF or DWSRF) program. This PER describes our evaluation performed and identifies the strengths and opportunities for improvement of the DWTRF program. The review period covered July 1, 2016 through June 30, 2017. EPA conducted its on-site review from May 22 to 23, 2018.

The Bureau for Public Health is congratulated for its use and management of the SRF program to provide safe and reliable water to citizens of West Virginia. No action items for BPH or EPA were identified in the FY 2017 review. From file management to program pace, additional subsidy, and unliquidated obligations, the State is a leader in Region 3.

Purpose and Scope

Section 1452 of the Safe Drinking Water Act (SDWA) requires EPA to conduct an annual review of the DWSRF Program. The FY 2017 annual review of West Virginia's DWSRF program was conducted in accordance with EPA's Interim Final Annual Review Guidance and Region III's Annual Review Plan. The annual review process included EPA's consideration of BPH's Annual Report, evaluation of the State's program, completion of the Annual Review Checklist, and issuance of this PER.

EPA conducts separate reviews of the technical aspects of the drinking water program activities undertaken with set-aside funds in conjunction with its review of the State's Public Water System Supervision (PWSS) Program. The current DWSRF review focused on the administrative and financial aspects of the set-aside activities.

The annual review's purpose is to assess the State's management of the program, including:



- Performance in achieving goals and objectives identified in the Intended Use Plans (IUPs) and Annual Report;
- Compliance with regulations, operating agreement and grant agreements (FS-993900-15 and 16)
- Financial status and performance of the Fund and set-aside accounts;
- Resolution of audit findings and prior year PER action items.

Project File Review

EPA reviewed BPH's files for the following projects:

Grant/ Loan reviewed	Date	Grant/ Loan Amount
Lubeck PSD	September 2016	\$3,680,367
River Road PSD	August 2016	\$2,546,000
Total		\$6,226,367

The project files were fully documented. Each file contained a full financial, technical and managerial review, monthly inspection reports, and state environmental reviews. A detailed financial capability and credit analysis is performed on all new loans and this documentation was included in the file. EPA commends BPH staff for its efforts in the environmental review process and project management.

Program Management and Staffing

BPH has done well in managing the DWSRF program. We are aware of a current Assistant Manager vacancy in the Infrastructure and Capacity Development Group. It is our hope that this vital vacancy be filled with urgency. It is essential that the program be fully staffed with adequately trained employees and managers for the effective management of the program to continue.

In addition, attendance at training courses continues to be included in the programmatic conditions to the capitalization grant. The expectation is that staff from the DWSRF program attend the national Council of Infrastructure Financing Authorities (CIFA) conferences, Regional All-States Meetings, Need Survey trainings and other SRF related training. These training opportunities are essential to BPH staff staying informed of the numerous changes and continuing developments in the national program. EPA Headquarters recently hosted at the EPA Regional Offices, both an SRF 101 session and a financial workshop geared toward DWTRF financial staff. BPH staff participated in the SRF 101 training, however, no one attended the financial training which is a missed opportunity. A list of financial training dates available in other Regions was provided to BPH for consideration.

Grant Compliance Requirements

The following are requirements in the DWSRF regulations, grant agreements, and operating agreement. Upon review, it is determined that the State met all compliance requirements for the review period.

- Annual Report
- Drinking Water National Information Management Systems database
- DWSRF Benefits Reporting (PBR) database
- Additional Subsidization *
- Payments
- State Match
- Program management set-aside one to one match.
- Binding Commitments
- Federal Financial Reports
- Federal Financial Accountability and Transparency Act
- Administrative Costs
- Davis Bacon
- Sustainability Policy *
- Operating Agreement
- American Iron and Steel
- Signage
- Subaward Policy *
- Readiness to Proceed

*Additional information below

Short and Long-Term Goals and Program Accomplishments

On pages two through eight of the annual report, the State summarized its accomplishments and on-going efforts towards achieving its program goals. The Region reviewed this summary to confirm that the State continues to effectively work towards the achievement of the goals of the DWSRF program. As noted in the annual report, BPH funded the below projects that made significant and beneficial improvements to the supply of safe drinking water:

- Preston County Public Service District (PSD) (Phase IV) – This project’s water distribution system currently extends near the limits of three proposed project areas. In the areas that do not have service from the Preston system, residents are obtaining water from sources contaminated by pre-1977 mining. Complaints from unserved residents prompted Preston PSD to seek DWSRF funding. The project will result in increased water service and the expansion of reliable water service to customers that rely on private water sources. Aside from DWSRF funding, the project received grants from WV Department of Environmental Protection and Abandoned Mine Lands Grant.
- River Road Public Service District (PSD) – The PSD provides service to approximately 760 customers in six towns. The district purchases potable water from the Morgantown Utility Board (MUB). Water is being pumped from a MUB storage tank in Westover to the River Road distribution system by way of the River Road booster pumping station, where all flow is measured by the master meter. The project seeks to improve the overall operation of the water distribution system by replacing high maintenance water lines, replacing undersized water lines, increasing volume of flow and improving the utilization of water storage thereby ensuring sufficient water supply during an emergency.

Program Pace

BPH's closings for FY 2017 consisted of four base projects totaling \$12,158,438. On a cumulative basis, the State made 127 DWSRF loans totaling \$228,505,000. In FY 2017 BPH is congratulating for attaining a pace of 96%. BPH identified a pipeline of projects to fund in FY 2018 which will ensure continued success in meeting the fund utilization goal rate.

Unliquidated Obligations

The reduction of Unliquidated Obligation (ULO) balances remains a high priority for the DWSRF program and a major objective of the EPA grant programs. Under the current strategy, all awarded grant funds beginning with the 2014 Capitalization Grant are expected to be expended within two years of the award date. This includes both construction and set-aside funds. BPH staff remains diligent in their effort to continue the reduction of unliquidated obligations.

As of June 1, 2018, the ULO balance for projects was \$3,321,652 or 2.2% of project funds awarded (Nat'l Avg. 1.6%) and \$1,855,074 for set-asides or 3.9% of set-asides awarded (Nat'l Avg. 5.8%), for a total ULO balance of \$5,176,726 or 2.6% federal capitalization grants awarded (Nat'l Avg. 2.3%).

Additional Subsidization

Beginning in FY 2010, Congress authorized DWSRF State programs to provide additional subsidization. In West Virginia, this is provided in the form of principal forgiveness. Each year's capitalization grant identified the specific amounts for this additional subsidy. The below chart summarizes the State's progress towards meeting the additional subsidy requirements for all open grants. Previous grants not shown in the chart below are programmatically closed prior to this annual review because the State demonstrated full compliance with this requirement.

It is recognized the agreements may be made either in the year of the appropriation providing the subsidy funds or the following year. If the minimum subsidy funds required are not in executed assistance agreements at the end of the second year, the Annual or Biennial Report for that year must contain a complete explanation of the reasons for the delay and provide a plan that identifies the project(s) that will use the remaining subsidy funds, along with milestones for each project showing the path to an executed assistance agreement. The Intended Use Plan for the following year should indicate the amount of additional subsidy from the previous year(s) that still must be provided to projects."

<u>Grant</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Committed</u>	<u>Available to Commit</u>
FS993900-12	\$1,801,256	\$2,701,885	\$1,826,527	\$875,358
FS993900-13	\$1,684,200	\$2,526,300	\$2,429,713	\$96,587
FS993900-14	\$1,782,600	\$2,673,900	\$2,034,715	\$639,185
FS993900-15	\$1,769,000	\$2,653,500	\$2,147,000	\$506,500
FS993900-16	\$1,662,400	\$2,493,600	\$1,700,000	\$793,600
FS993900-17	\$1,648,200	\$2,449,823	\$1,650,000	\$799,823
	\$10,347,656	\$15,499,008	\$11,787,955	\$3,711,053

The Region is provided an extensive chart that BPH uses to track principal forgiveness. The cumulative principal forgiveness tracking table is also included within the annual report. The program uses the tracking sheet to ensure compliance with the grant condition and for future forecasting of principal forgiveness commitments.

Drinking Water Project Benefits Reporting (PBR)

As part of the annual review process, EPA staff reviewed with BPH the “issue report” downloaded from PBR by EPA staff. All projects not marked as complete were found to be accurately left unmarked, as project completion did not occur. Upon project completion, BPH has a process in place to ensure all project data is entered into PBR and marked complete to guarantee benefits are reported timely.

Public Health Benefits

West Virginia’s DWSRF program provides financial assistance to improve and maintain public health throughout the State. The projects financed are vital in the reduction of public health concerns related to drinking water quality.

During FY 2017, the DWSRF program financed 4 projects totaling \$12,158,438 thus ensuring safe drinking water for at least 42,326 West Virginians. All the projects contributed to the joint State/EPA mission of improving the quality of drinking water to better protect the public’s health.

Small Systems and Disadvantaged Funding

The State continues to be successful in meeting the needs of small drinking water systems, and exceeded the SDWA requirement to provide a minimum of 15% of available funding to small systems (population under 10,000). Cumulatively, 77% of construction funds available went to small drinking water systems.

As of June 30, 2017, BPH provided disadvantaged assistance to 92 water systems. This amount includes all types of assistance provided to systems identified as disadvantaged by the State, including principal forgiveness, extended loan terms, and lower interest rates.

BPH’s Utilization of EPA’s Enforcement Targeting Tool (ETT)

BPH staff continue to utilize the Enforcement Targeting Tool (ETT) to assist in identifying water systems in need of a capital improvement project(s) to return to compliance. The ETT score remains a factor in the rating and ranking of water systems during the technical, managerial and financial review of a project. Projects that rank high enough on the Project Priority List are eligible to receive DWTRF funding to support system improvements. Cumulatively, \$63,893,694 in financing went to assist non-compliant systems to achieve compliance. Use of the SRF to maintain compliance with health based standards is a priority in the Agencies 2018-2022 Strategic Plan.

Sustainability and Resiliency

During this year’s annual review, EPA and BPH discussed sustainable projects on the current Intended Use Plan, Project Priority List and project pipeline. The discussion focused on updating the

Sustainability tab from EPA's SRF Annual Review Checklist. The below project was highlighted in the discussion.

- Lubeck Public Service District (PSD) – The Lubeck PSD is located in Wood County, WV and serves roughly 4,365 customers. The PSD currently has no existing water distribution system providing water to the rural Belleville service area. Many residents are dependent upon water wells that are unreliable to provide potable water. Residents also purchase water from a local bulk water station and haul it to their residences. The result of this project is supplying residents in Belleville with a public drinking water source that will eliminate private water supplies that produce insufficient quantity and quality of water. The extension of nineteen miles of waterline will serve 180 customers in the Belleville area.

The project completion resulted in the system having a working asset management plan and a zero ETT score for health compliance. Asset Management is essential to providing sustainable safe drinking water. The Agencies 2018-2022 Strategic Plan encourages the use of technology and innovation to accelerate improvements.

Sub Awards

EPA staff discussed with BPH their responsibility in implementing the new grant regulations Uniform Grants Guidance (UGG) 2 CFR 200 330-332 regarding EPA's Subaward Policy. It was recommended that the DWSRF managers review the policy with their attorneys to ensure the State maintains compliance.

Drinking Water Set-Aside Activities

The chart below shows the progress that the BPH reported in obligating and expending funds on a cumulative basis for each set-aside category. BPH is aware of the importance of expending unliquidated obligations in a timely manner. Spending on all set-asides remains consistent and at the time of this report, the goal of having only two open grants is met.

SET-ASIDE UTILIZATION FOR ALL GRANTS CUMULATIVE AS OF JUNE 30, 2017 (*)					
	Administration	Technical Assistance	Program Management	Local Assistance	Total
Cumulative Awarded (*)	\$5,500,239	\$3,365,491	\$14,339,634	\$21,341,830	\$44,547,194
Cumulative Expended (*)	\$5,406,616	\$3,227,044	\$14,184,502	\$20,788,416	\$43,606,578
Percent Expended	98.3%	95.9%	98.9%	97.4%	97.9%
Percent Expended National Avg.	95.1%	89.4%	93.0%	87.6%	

(*) Source: DWNIMS through June 30, 2017.

Cash Transactions Reviewed

In response to the Improper Payments Elimination and Recovery Act (IPERA), the Office of Management and Budget, through the EPA Office of the Chief Financial Officer (OCFO) directed that the DWSRF be subject to testing of a random selection of transactions to develop a national estimate of improper payments from the program. Therefore, during this annual review EPA identified four cash transactions totaling \$964,565.27. EPA Region III staff reviewed the supporting documentation for the selected cash draws. All invoices reviewed were found properly made for eligible DWSRF expenditures and were appropriately recorded in WV BPH's accounting records. No costs were questioned and there were no improper payments.

Grant Number	Date	Cash Draw	Improper Payment
FS-993900-15	9/14/2016	\$144,153.27	No
FS-993900-15	2/2/2017	\$101,436.00	No
FS-993900-16	9/16/2016	\$410,620.00	No
FS-993900-16	1/11/2017	\$308,356.00	No
Total		\$964,565.27	

Implementation of Additional SRF Financial Indicators

To address a high priority recommendation from the Government Accountability Office's (GAO) August 2015 report, "State Revolving Funds: Improved Financial Indicators Could Strengthen EPA Oversight.", three new financial indicators were developed in collaboration with state and EPA SRF managers. These three new indicators will be reviewed in the FY'18 review in addition to the financial indicators currently reported in the DWSRF National Information Management System (DW NIMS) i.e. Implementation of CWSRF Financial Indicators dated October 31, 2000 and Implementation of DWSRF Financial Indicators dated February 23, 2003.

The purpose and value of these new indicators was discussed with BPH staff. Beginning with SFY 2018 data, EPA will analyze the new indicators, comparing the most recent three years of data, as part of the annual review. The data to calculate the indicators is pulled directly from DW NIMS. A description of the new financial indicators and how to calculate, is included below.

- Ratio of Undisbursed Project Funds to Disbursements – key component of SRF fund management is the balancing of cash inflows and outflows. This ratio evaluates how efficiently SRF funds are revolving by examining the program's disbursement rate over a set period and comparing it to the amount of cash on hand. This indicator should either remain stable or decrease over time.

Undisbursed Project Funds / 3 Year Average Annual Disbursements

- Total Net – measures the extent to which internal growth is generating additional funding for new projects. This is accomplished by taking total cash inflows generated by ongoing loans and investments and subtracting out the total outflows resulting from leveraging activity. This indicator should either remain stable or increase over time.

$(\text{Loan Interest} + \text{Investment Interest} - \text{Bond Interest}) - (\text{Match Bond Principal} + \text{Loan Principal} - \text{Leveraged Bond Principal})$

- Net Interest Margin – measures the net earnings the SRF is generating from its Total Assets through loans and investments after accounting for the interest expense associated with match and leveraged bonds. This indicator does not include Match Bond principle payments as an expense like the existing Retained Earnings metric. This indicator should remain stable or increase over time.

$\text{Net Interest} / (\text{Total Assets Prior Year} + \text{Total Assets Current Year}) / 2 * 100$

Financial Health of the Fund

The financial health of the DWSRF program is good. All municipal loans are secured by system revenues and debt service reserves. Due to the absence of long-term debt, all funds deposited into the DWSRF are available to provide additional financial assistance to improve the State's water quality. To date there have been no municipal loan defaults. No delinquencies in revenues or reserve balances were reported in either the audit or the 2017 DWSRF Annual Report.

As of June 30, 2017, net assets were \$157,912,149. That is 5.17% over FY 2016 net assets of \$150,148,129. Included in this amount is \$ 51,807,604 in loan principal and interest repayments and \$3,213,504 in investment earnings.

Return on Equity (ROE) is a measure of the growth of capital within the DWSRF. The ROE for the DWSRF increased slightly to 1.08% in FY 2017, from 1.00% in FY 2016. The ROE rate is adequate considering WV BPH's DWSRF program generally offers loans to its borrowers with interest rates averaging less than one percent and interest rates on invested funds are near zero percent for the liquidity accounts.

EPA concludes that WV BPH continues to manage the DWSRF program in a manner that ensures the Fund will be available in perpetuity as a permanent source of financing of water quality infrastructure facilities. This conclusion is based upon a review of the audited financial statements, annual report, the financial management policies and procedures, and the following:

- The DWSRF fund account has a strong cash flow;
- Financial management is sound;
- Internal controls are in place;
- Annual independent audits are performed;
- All funds are invested prudently;
- The Public Service Commission performs detailed initial credit analysis and financial capability assessments on all municipal borrowers;
- WV BPH provides strong loan monitoring of borrowers during construction and loan repayments throughout the loan periods;
- State match is deposited in one lump sum when EPA grants are awarded; and
- There is no debt.

Audits of the Fund

On September 16, 2017, the State's independent certified public accountants (CPAs) issued the West Virginia DWSRF audited financial statements. The audit included an unmodified opinion on the financial statements, indicating that they were fairly stated in accordance with generally accepted accounting principles (GAAP). There were no findings or recommendations reported in the audit report.

The WV BPH DWSRF (CFDA No. 66.468) financial audit report includes the Single Audit (DWSRF loan funds only). The DWSRF projects were the only Federal expenditures included in this report. There were no findings or questioned costs.

In addition, WV issued the 2017 Statewide Single Audit, which included the set-aside funds. In this audit, the DWSRF set-asides were not audited as a major program and no findings or questioned costs were reported.

The 2017 Federal expenditures reported for the DWSRF program per the Federal Financial Reports submitted to EPA by WV BPH, \$8,261,590, equaled the amount reported in the Single Audit Schedules of Expenditures of Federal Awards.

Recommendations

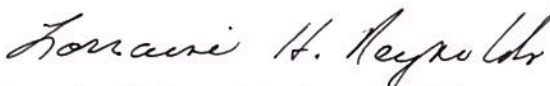
None

Prior Year Recommendations

None

Thank you to the Drinking Water SRF management and staff for their hard work, dedication to public health protection, and demonstrated commitment. Attached is the annual review summary checklist. Should you have any questions, please contact me at 215-814-5435 or Lea Ruiz at 215-814-5496.

Sincerely,



Lorraine H. Reynolds, Associate Director
Office of Infrastructure and Assistance

Enclosures

cc: Robert DeCrease, BPH

